

## EMPLOYEES’ STATE INSURANCE (“ESI”) CONTRIBUTION RATE REDUCED TO 4 PER CENT

### AMENDMENT

The Ministry of Labour and Employment, Government of India has pursuant to its notification bearing ref. no. G.S.R. 423 (E) dated 13 June 2019 amended Employees’ State Insurance (Central) Rules, 1950 and notified the Employees’ State Insurance (Central) Amendment Rules, 2019 (“**Amendment Notification**”) for reducing the rate of contribution from 6.5 per cent to 4 per cent.

### EFFECTIVE DATE:

The Amendment Notification shall come into effect on 1 July 2019.

### APPLICABILITY OF THE EMPLOYEES’ STATE INSURANCE ACT 1948 (“ACT”):

The Act is applicable to non-seasonal factories employing 10 or more persons.

Under Section 1(5) of the Act, the Scheme has been extended to shops, hotels, restaurants, cinemas including preview theatres, road-motor transport undertakings, newspaper establishments, establishments engaged in insurance business, non-banking financial companies, port trust, airport authorities and warehousing establishments, private medical and educational institutions (in certain states and union territories) employing 10 or more persons.

The existing wage limit for coverage under the Act effective from 01 January 2017 is Rs. 21,000/- per month<sup>1</sup>.

**\*Note:** The threshold for Coverage of establishments is 20 employees in Maharashtra and Chandigarh.

### AMENDMENT:

Rule 51 of the Employees’ State Insurance (Central) Rules, 1950 (“**the ESI Rules**”) has been amended pursuant to the Amendment notification

	<b>Pre-Amendment</b>	<b>Post Amendment</b>
Employer’s contribution	4.75%	3.75%
Employee’s contribution	1.75%	0.75%
Total	6.5%	4.5%

---

<sup>1</sup> Rs. 25,000/- per month in the case of persons with disability

## CONCLUSION

Pursuant to the Amendment Notification the aggregate rate of contribution of both the employer and the employee has been reduced to 4.5%. This will now have a two-fold effect:

- Increase the take home salary of an employee;
- Reduce the cost of labour for an employer.

This change would be welcomed by employers and employees alike. It noteworthy that the reduction in contribution has not come at the cost of a reduction in the benefits available to employees.

## DISCLAIMER

*This article is for information purpose only. We request you to take specific legal advice before taking any action pursuant to this article.*

*For further clarification and details on the above, you may write to Mallika Noorani (Partner) at [mallika.noorani@parinamlaw.com](mailto:mallika.noorani@parinamlaw.com) and Shruti Tandon (Associate) at [shruti.tandon@parinamlaw.com](mailto:shruti.tandon@parinamlaw.com).*

### MUMBAI

4th Floor, Express Towers, Ramnath Goenka Marg, Nariman Point, Mumbai - 400 021 • Tel - 022 4241 0000

### NEW DELHI

4 Todarmal Lane, Bengali Market, New Delhi – 110 001 • Tel – 98104 00283

### PUNE

2nd Floor, Kundan Chambers, Thube Park, Next to Sancheti Hospital, Shivajinagar, Pune - 411 005 • Tel - 020 2553 0711

[www.ParinamLaw.com](http://www.ParinamLaw.com)